



Joan McDonald
Commissioner



State of Connecticut
Department of Economic and
Community Development

**TESTIMONY SUBMITTED TO THE INSURANCE AND
REAL ESTATE COMMITTEE**

January 27, 2009

456

Joan McDonald, Commissioner
Department of Economic and Community Development

**Senate Bill 456 AN ACT ADOPTING THE NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS' INTERSTATE INSURANCE PRODUCT
REGULATION COMPACT**

The Department of Economic and Community Development (DECD) offers the following comments in **SUPPORT** of Senate Bill 456 AN ACT ADOPTING THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' INTERSTATE INSURANCE PRODUCT REGULATION COMPACT.

As you maybe aware, Connecticut is home to many of the most successful insurance and financial services companies in the world. Connecticut has the largest concentration of financial and insurance services firms in the United States, and they account for 21% percent of the gross state product. More than eight percent (8.62%) of the state's work force is employed in the sector, with high concentrations of financial analysts, underwriters, risk managers, and actuaries. The insurance industry is a critical part of this sector in our state:

- Nearly 68,000 people work directly in the insurance industry with an average salary of \$78,000. They are normally high-skilled, well-paid jobs. Another 91,000 are employed indirectly.
- Every year insurance carriers purchase, on average, \$4.3 billion in goods and services from all other industries in Connecticut.
- Insurance companies give more than \$20 million a year to state non-profits. That is 25% of all corporate giving in the state.
- Insurance employees paid \$210 million in personal wage taxes (2004).

Interstate compacts have existed since the country was founded. Historically used to address border disputes and water rights, compacts in recent decades have been expanded significantly to cover tax issues, drivers' licenses and vehicle registration, environmental issues, and emergency management. They have also been used for insurance regulation, including carrier financial exams, market conduct exams, continuing credits and other producer reciprocity issues and a host of other issues. More than 200 interstate compacts now exist, and every state, including Connecticut, belongs to at least 25 compacts.

Presently there are 33 jurisdictions that have enacted legislation to join the Interstate Insurance Product Regulation Compact (AK, CO, GA, HI, IA, ID, IN, KS, KY, LA, MA, MD, ME, MI, MN, NC, NE, NH, OH, OK, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WV, WY and Puerto Rico).

The Interstate Insurance Product Regulation Compact follows the same principle as other compacts: it allows states to cooperate on multi-state or national issues while retaining state control. The compact is a central point of filing, reviewing and approving insurance products based on national uniform standards with strong consumer protections. If adopted it will enable our domestic insurance business to better compete nationally and globally.

This is a global business that faces enormous competition. To stay ahead of the competition, insurance companies must create and implement products quickly. In the past a product had a shelf life of five or more years but now companies are fortunate if products last two years. Consumer and business needs change rapidly and in order to survive businesses must do the same. Getting products approved quickly is imperative and businesses will locate in states where they can accomplish this. There is no question that regulatory costs and the ability to quickly adapt to market changes are deciding factors when companies are relocating or expanding, and states are taking advantage of this by marketing themselves as "compact" states.

The NAIC is moving quickly to implement the interstate compact. Since its first gathering in June 2006, the Interstate Compact Commission has established a management committee, adopted bylaws, elected officers, approved national standards for 38 products and, named Frances Arricale as executive director. It's moving forward to staff all of its advisory committees and implement product regulations.

The compact does not pit the interests of business against consumers. In fact, it represents a "win-win-win" for consumers, state insurance regulators and insurers. As you know, the national banks and securities firms typically have one federal regulator in contrast to the current state-based system of insurance regulation. It has become a business imperative for life insurers to seek a system of insurance regulation that allows them to market their products and compete more effectively for business throughout the US.

If states such as Connecticut decline to join the Compact, then even more pressure will be placed on the US Congress to displace the state-based insurance regulation or otherwise offer life insurers an optional federal charter. If this were to occur, one may reasonably anticipate that Connecticut's life insurance industry would seek to migrate to a single federal insurance regulator rather than move to another state.

If passed, our state insurance regulators will be able to share best practices and use their resources more effectively. This will also allow Connecticut's insurance companies to be more competitive, enabling them to grow, prosper and expand in our state. Without the state's participation in this compact it is feared that we will fall behind other states.

Therefore it is the department's hope that you will support keeping our state flagship industry competitive and approve this legislation.